

SUMMARY ANALYSIS OF AMENDED BILL

Author: Leach Analyst: Darrine Distefano Bill Number: AB 373
Related Bills: See Prior Analysis Telephone: 845-6458 Amended Date: 05-31-2001
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Veterinary Expenses for Adopted Animal Deduction

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

X DEPARTMENT POSITION CHANGED TO Neutral.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 20, 2001. STILL APPLIES.

OTHER - See comments below.

SUMMARY

This bill would allow a taxpayer to deduct the costs of veterinary services paid or incurred for an adopted animal.

SUMMARY OF AMENDMENTS

The May 31, 2001, amendments eliminated the provisions that would have allowed a veterinarian to deduct the expenses of providing pro bono services for an animal adopted from an animal shelter or a nonprofit animal welfare organization.

The May 31 amendments resolved the department's implementation consideration and one of the policy considerations identified in the department's analysis of the bill as introduced February 20, 2001. The remaining unresolved technical and policy considerations and a new revenue estimate are provided below. The remainder of the department's analysis of the bill as introduced on February 20, 2001, still applies.

Board Position:

<u> </u> S	<u> </u> NA	<u> </u> NP
<u> </u> SA	<u> </u> O	<u> </u> NAR
<u> X </u> N	<u> </u> OUA	<u> </u> PENDING

Legislative Director

Date

Brian Putler

06/19/01

POSITION

Neutral.

At its May 2, 2001, meeting, the Franchise Tax Board voted 2-0 to take a neutral position on this bill, with Annette Porini, on behalf of Member B. Timothy Gage, abstaining.

TECHNICAL CONSIDERATIONS

The bill requires the animal welfare organization to qualify as an exempt organization under state tax law. Technically, the wording does not require the organization to have actually applied for and been granted status as a tax-exempt organization. If the author wishes the organization to actually be a tax-exempt organization, the wording needs minor changes.

ECONOMIC IMPACT

Revenue Estimate

Based on available information, this bill is projected to result in minor revenue losses, less than \$225,000 annually beginning in 2001-02.

The deduction would be subject to the 2% of adjusted gross income (AGI) limitation for miscellaneous itemized deductions. Assuming an average medical cost of \$250 for those animals requiring medical treatment, the 2% AGI limitation would significantly limit the number of people that could claim this deduction.

The projected number of animals adopted from an animal shelter or nonprofit animal welfare organization in California in 2002 is approximately 200,000. An additional 5% of these California adoptions were included for taxpayers adopting animals from out-of-state shelters. Shelters that offer health guarantees for their adopted animals can incur large related medical expenses for adopted animals that become sick within the specified time frame of the health guarantee, usually less than three months. For purposes of this estimate it is assumed that 40% of the projected number of adopted animals will need veterinary services as detailed in this proposal. This revenue loss is computed using an average marginal tax rate of 6%.

This estimate was developed in coordination with California experts from animal welfare organizations such as the SPCA and county agencies.

POLICY CONSIDERATIONS

This bill would establish a deduction for which federal law has no counterpart, thus increasing nonconformity, which can complicate preparation of a state income tax return.

The deduction would be allowed for veterinarian services for an animal adopted from any animal shelter or nonprofit animal welfare organization, regardless of whether the organization, the animal, or the veterinarian is either inside or outside California. While certain geographic limitations are permissible, limiting the deduction to California residents or to services provided within California may raise constitutional issues.

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